

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
HEALTH CARE FINANCING ADMINISTRATIONFORM APPROVED  
OMB NO. 0938-019TRANSMITTAL AND NOTICE OF APPROVAL OF  
STATE PLAN MATERIAL

FOR: HEALTH CARE FINANCING ADMINISTRATION

1. TRANSMITTAL NUMBER:

\_02\_ - \_01\_ 5\_

2. STATE:

MAINE

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOC  
SECURITY ACT (MEDICAID)TO: REGIONAL ADMINISTRATOR  
HEALTH CARE FINANCING ADMINISTRATION  
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE(S)

10/01/02

5. TYPE OF PLAN MATERIAL (CHECK ONE):

☐ NEW STATE PLAN☐ AMENDMENT TO BE CONSIDERED AS NEW PLAN☒ AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:

7. FEDERAL BUDGET IMPACT:

a. FFY \_03\_ \$ 1,500,000

b. FFY \_04\_ \$ 1,500,000

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:  
ATT. 4.1D P. 29. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION  
OR ATTACHMENT (If Applicable): ATT. 4.1D P.2

SUBJECT OF AMENDMENT: ADD ICF-MR ASSESSMENT AS ALLOWABLE COST AND UPDATE AND CLARIFY LANGUAGE

11. GOVERNOR'S REVIEW (Check One):

- ☐
- GOVERNOR'S OFFICE REPORTED NO COMMENT
- 
- ☐
- COMMENTS OF GOVERNOR'S OFFICE ENCLOSED
- 
- ☐
- NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL

☒ OTHER, AS SPECIFIED  
COMMISSIONER, DEPT. OF HUMAN SERVICES

12. SIGNATURE OF STATE AGENCY OFFICIAL:

*Kevin W. Concannon*

13. TYPED NAME:

Kevin W. Concannon

14. TITLE:

Commissioner, Maine Department of Human Services

15. DATE SUBMITTED: NOVEMBER 7, 2002

16. RETURN TO:

EUGENE GESSOW  
Director, Bureau of Medical Services  
#11 State House Station  
442 CIVIC CENTER DRIVE  
Augusta, ME 04333-0011

## FOR REGIONAL OFFICE USE ONLY

17. DATE RECEIVED:

12-30-02

18. DATE APPROVED:

2-16-03

PLAN APPROVED - ONE COPY ATTACHED

19. EFFECTIVE DATE OF APPROVED MATERIAL:

10-1-02

20. SIGNATURE OF REGIONAL OFFICIAL:

*Brian J. Smith*

21. TYPED NAME:

CHARLENE BROWN

22. TITLE:

Deputy Director, CMSO

23. REMARKS:

## **II. Intermediate Care Facilities for the Mentally Retarded (ICFs-MR)**

The methods and standards used by the state agency to determine payment rates to ICFs-MR are in accordance with 1902(a)(13)(A) of the Social Security Act and the regulations published as 42 CFR 447 Subpart C.

ICFs-MR are reimbursed using a prospective reimbursement system. The rates of reimbursement are derived from a fixed cost component, a labor component and a variable cost component. The fixed costs are reimbursed on the basis of actual fixed costs incurred by the facilities. The labor costs are reimbursed on the basis of actual allowable labor costs, subject to the facility's approved staffing patterns. The variable cost component is determined by adjusting each facility's base year 1990 costs, as established by the State Legislature, by an annual inflation factor to determine the facilities' prospective variable cost ceiling. If the facilities incur allowable variable costs in excess of the variable cost ceiling, the costs in excess of the ceiling are disallowed. The annual inflation factor is determined by using the "nursing home without capital" market basket-quarterly history from the Health Care Cost Review, a publication of the Cost Information Service. If the facilities incur allowable variable costs less than the variable cost ceiling, the facilities are reimbursed the actual allowable variable costs, plus a percentage of the savings.

Reimbursement to ICFs-MR is made in accordance with the State's "Principles of Reimbursement for Long-Term Care Facilities for the Mentally Retarded" which follow.

### **Audit Procedures Utilized by the Department**

#### **On-Site Audits**

On-site audits will be conducted on an annual basis in accordance with generally accepted auditing standards with final settlement being made in accordance with Principle 7070.

**INDEX****INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED****PAGE**

<b>1000</b>	<b>COST RELATED TO PATIENT CARE .....</b>	<b>7</b>
1010	Principle.....	7
1020	Definitions.....	8
1021	Reasonable Cost.....	8
1022	Allowable Costs.....	8
1023	Necessary and Proper Cost .....	8
<b>2000</b>	<b>COST FINDING AND COST REPORTING .....</b>	<b>8</b>
2010	Cost Report Periods .....	8
2020	Accounting Principles .....	8
2021	Generally Accepted Accounting Principles .....	8
2022	Accrual Method of Accounting.....	8
2023	Cash Method of Accounting .....	9
2030	Cost Finding .....	9
2031	Direct Care Staff Salaries.....	9
2032	Other Nursing Staff .....	9
2033	Capital Costs.....	9
2034	Plant Operation and maintenance .....	9
2035	Housekeeping .....	9
2036	Laundry.....	9
2037	Dietary .....	9
2038	General and Administrative .....	9
2040	Cost Reports .....	9
2041	Forms.....	9
2042	When To File .....	9
2043	Rounding .....	9
2044	Certificate by Operator .....	9
2050	Record Keeping Requirements.....	10
<b>3000</b>	<b>ROUTINE SERVICES - CAPITAL COSTS.....</b>	<b>10</b>
3010	Depreciation .....	11
3011	Principle .....	11
3012	Definitions .....	13
3013	Recording Depreciation.....	14
3014	Depreciation Method .....	14
3015	Funding of Depreciation .....	14
3016	Gains and Losses on Disposal of Assets .....	15
3017	Limitation on the Participation of Capital Expenditures.....	15
3020	Purchase, Rental, Donation and Lease of Capital Assets.....	15
3021	Purchase of Facilities from Related Organizations.....	15
3022	Basis of Assets Used Under the Program and Donated to a Provider....	17
3023	Allowance for Depreciation on Assets Financed with Federal or Public Funds .....	17

3024	Leases .....	17
3025	Sale and Lease Back Agreements .....	18
3030	Interest Expense.....	19
3031	Principle .....	19
3032	Definitions .....	19
3033	Borrower-Lender Relationships .....	20
3034	Loans Not Reasonably Related to Patients Care .....	21
3035	Interest Expense of Related Organization .....	21
3036	Interest on Property Taxes .....	21
3037	Limitations on the Participation of Capital Expenditures .....	21
3040	Return on Equity Capital of Proprietary Providers.....	21
3041	Principle .....	21
4000	<b>ROUTINE SERVICES - OTHER ALLOWABLE COSTS .....</b>	<b>23</b>
4010	Other Allowable Costs .....	23
4011	Principle .....	23
4020	Bad Debts, Charity, and Courtesy Allowances.....	24
4021	Principle .....	24
4030	Cost of Educational Activities.....	24
4031	Principle .....	24
4032	Definitions .....	24
4033	Orientation, On-The-Job Training, Inservice Education and Similar Work Learning.....	24
4034	Basic Education .....	24
4040	Research Costs., .....	25
4041	Principle .....	25
4050	Grants, Gifts, and Income from Endowments .....	25
4051	Principle .....	25
4052	Definitions .....	25
4060	Donations of Produce or Other Supplies.....	25
4070	Donation of the Use of Space.....	25
4080	Value of Services of Nonpaid workers .....	26
4081	Principle .....	26
4082	Limitations- Services of Nonpaid Workers.....	26
4090	Purchase Discounts and Allowances, and Refunds of Expenses.....	26
4091	Principle .....	26
4092	Definitions .....	26
4093	Reduction of Costs.....	26
4094	Application .....	27
4100	Advertising Expense .....	27
4101	Principle .....	27
4110	Limit on Allowable Administration and Management Expenses .....	27
4111	Principle .....	27
4112	Definitions .....	27
4120	Administrator in Training.....	29
4130	Cost to Related organization.....	30
4131	Principle .....	30
4132	Definitions .....	30
4140	Motor Vehicle Allowance.....	30
4150	Insurance.....	30
4160	Legal Fees.....	31

4165	Costs Related to Union Activities .....	31
4170	Day Habilitation Services Outside of Facility .....	31
4180	Costs Attributable to Asset Sales .....	31
<b>5000</b>	<b>SPECIAL SERVICE ALLOWANCE .....</b>	<b>31</b>
5010	Principle .....	31
5011	Qualified Mental Retardation Professional .....	32
5012	Pharmacist Consultants .....	32
5013	Dietary Consultant .....	32
5014	Physician Participation in the Professional Policy Committee of ICFs ....	32
5015	Social Worker Consultant .....	32
<b>7000</b>	<b>PROSPECTIVE METHOD OF PAYMENT: INTERMEDIATE CARE FACILITIES FOR THE MENTALLY RETARDED .....</b>	<b>33</b>
7010	Prospective Per Diem .....	33
7011	Principle .....	33
7012	Definitions .....	33
7012.1	Fixed Costs .....	33
7012.2	Variable Costs .....	34
7012.21	Wages .....	34
7012.22	Fringe Benefits .....	38
7012.3	"Other" Costs .....	39
7012.4	Days of Care .....	39
7012.5	Base Year .....	39
7012.6	Per Diem Rate .....	39
7020	Implementation .....	39
7030	Establishment of Prospective Per Diem Rate .....	40
7031	Principle .....	40
7040	Inflation Adjustment .....	41
7050	First Year Prospective Rate .....	42
7051	Interim Prospective Rate .....	42
7052	Final Prospective Rate .....	43
7054	Payment Adjustment for First Year Interim Versus Final Prospective Rate .....	43
7055	First Year Base Limitation .....	44
7057	Occupancy Adjustment .....	45
7060	Second and Subsequent Years: Interim Prospective Rate .....	46
7070	Final Audit of First and Subsequent Prospective Years .....	47
7071	Principle .....	47
7072	Settlement of Fixed Expenses .....	47
7074	Incentive .....	48
7074.1	Conditions for Incentive Payments .....	48
7075	Second Year and Subsequent Final Prospective Rate .....	48
7076	Calculation of Overpayments or Underpayments .....	49
7080	Changes in Staffing .....	50
7080.1	Direct Care Personnel .....	50
7080.2	Non-Direct Care Staff .....	51
7090	Administrator in Training .....	51
7095	Certified Nurses Aide Training .....	52
7100	New Facilities .....	53

7150	Transfer of Ownership .....	53
7200	Extraordinary Circumstance Allowance.....	53
7210	Serious Problems of Recruitment and Retention of Nursing and Direct Service Staff .....	53
7300	Innovative Programs.....	58
7400	Retroactive Adjustment for Food, Fuel, and "Other Expenses" ...	59
7500	Adjustment for Unrestricted Grants or Gifts .....	62
7600	Adjustments for Appeal Decisions .....	62
7700	Adjustments for Capital Costs .....	62
7800	Base Salary Adjustment (ICF/MR Group Homes).....	62
8000	<b>APPEAL PROCEDURES, START UP COSTS, DEFICIENCY RATE, RATE LIMITATION.....</b>	<b>62</b>
8010	Appeals Procedures .....	62
8020	Start Up Costs .....	63
8030	Cost Treatment for Reimbursement.....	64
8040	Deficiency Per Diem Rate.....	64
8050	Rate Limitation.....	65

## **INTRODUCTION**

### **PURPOSE**

The purpose of these Principles is to comply with Section 1902(a)(13)(A) of the Social Security Act and the Rules and Regulations published thereunder (42 CFR Part 447) namely: to provide for payment to Intermediate Care Facilities for the Mentally Retarded (ICF/MR's) through the use of rates which are reasonable and adequate to meet the costs which must be incurred by efficiently and economically operated facilities in order to provide care and services in conformity with applicable State and Federal laws, regulations, and quality and safety standards.

The Authority of the Department of Human Services to accept and administer any funds which may be available from private, local, State or Federal sources for the provision of the services set forth in these Principles of Reimbursement is established in Title 22 of the Maine Revised Statutes Annotated, §§ 10 and 12. The regulations themselves are issued pursuant to authority granted to the Department of Human Services by Title 22 of the Maine Revised Statutes Annotated §42(l).

### **DEFINITIONS**

The term Department as used throughout these Principles is the State of Maine Department of Human Services.

The term Designated Planning Agency as used throughout these Principles is the State of Maine Department of Human Services functioning as the Designated Planning Agency under Section 1122 of Public Law 92-603, the Social Security Amendments of 1972.

The term State Licensing and Federal Certification as used throughout these principles are the "Regulations Governing the Licensing and Functioning of Intermediate Care Facilities for the Mentally Retarded" and the Federal Certification requirements for Intermediate Care Facilities for Mentally Retarded that are in effect at the time the expense is incurred.

The term "BMR" as used throughout these principles means the Bureau of Mental Retardation Department of Mental Health and Mental Retardation.

### **REIMBURSEMENT METHOD**

The Department will reimburse an ICF/MR on the basis of a prospectively determined rate on cost reporting forms provided by the Department (See section 7000 PROSPECTIVE METHOD OF PAYMENT for details of the Prospective Reimbursement System).

All long-term care facilities are required to submit Annual Cost reports as prescribed herein to the State of Maine Department of Human Services, Division of Health Care Audit, State House, Augusta, Maine 04333. Such cost reports shall be based on the fiscal year of the facility.

### **ALLOWABILITY OF COSTS**

A determination of whether or not a cost is allowable and interpretations of definitions, not specifically detailed in these Principles, will be based on Medicare Provider Reimbursement Manual (HIM-15) guidelines and Internal Revenue Service guidelines in effect at the time of such determination.

**PUBLIC HEARINGS**

The State of Maine will provide for public hearings as necessary in our State Plan, according to State procedures.

**WAIVER**

The failure of the Department to insist, in any one or more instances, upon the performance of any of the terms or conditions of these Principles, or to exercise any right under these Principles, or to disapprove of any practice, accounting procedure or item of account in any audit, shall not be construed as a waiver of future performance of the right. The obligation of the Provider with respect to future performance shall continue, and the Department shall not be estopped to require such future performance.

**LIMITATIONS ON REOPENING AUDITS**

No final audit shall be reopened, nor shall any hearing be allowed concerning any matter contained in any final audit, after three years following the date of the final audit settlement. This limitation does not apply in the event of fraud or misrepresentation.

**1000 COST RELATED TO PATIENT CARE****1010 Principle**

Federal law requires that payment for long term care facility services provided under Medicaid shall be provided through the use of rates which are reasonable and adequate to meet the costs which must be incurred by efficiently and economically operated facilities in order to provide care services in conformity with applicable state and Federal laws, regulations, and quality and safety standards. Costs incurred by efficiently and economically operated facilities include costs which are reasonable, necessary and related to patient care, subject to principles relating to specific items of revenue and cost.

- 1011 Costs must be ordinary and necessary and related to resident care. They must be of the nature and magnitude that prudent and cost conscious management would pay for a specific item or service.
- 1012 Costs must not be of the type conceived for the purpose of circumventing the regulations. Such costs will be disallowed under the principle that the substance of any transaction will prevail over form.
- 1013 Costs that relate to inefficiency, unnecessary or luxurious care or unnecessary or luxurious facilities and to activities not common and accepted in the field of mental retardation services are not allowable.
- 1014 Compensation to be allowable must be reasonable and for services that are necessary and related to resident care habilitation and active treatment and pertinent to the operation of the facility. The services must actually be performed and must be paid in full. The compensation must be reported to all appropriate state and federal tax authorities to the extent required by law for income tax, social security, and unemployment insurance purposes.



1015 Costs incurred to comply with changes in federal or state laws and regulations for increased care, habilitation treatment and improved facilities are to be considered reasonable and necessary costs.

1016 Costs incurred for resident services that are rendered in common to Medicaid residents, as well as to non-Medicaid residents will be allowed on a pro rate basis unless there is a specific allocation defined elsewhere in these Principles.

#### 1020 Definitions

1021 Reasonable Costs are those costs incurred by a provider which are reasonable and necessary in providing care, rehabilitation, and treatment to publicly aided residents and which are within the requirements and limitations of these principles of reimbursement. The reasonableness and necessity of any costs shall be determined by reference to or in comparison with the costs of providing comparable services, the Maine Medical Assistance Manual or absolute costs related to resident's unique circumstances and needs.

1022 Allowable Costs are the operating costs after the adjustment required by the Principles have been applied to the provider's total operating costs as reported in the annual costs reports.

1023 Necessary and Proper Costs are those which are appropriate and helpful in developing and maintaining the efficient and economical; operation of resident care and habilitation facilities and activities. They are usually costs which are common and accepted occurrences in the field of mental retardation.

### 2000 COST FINDING AND COST REPORTING

2010 Cost Report Periods. All long-term care facilities are required to submit annual cost reports as prescribed herein to the State of Maine, Department of Human Services, Division of Health Care Audit, State House, Augusta, Maine 04333. Such cost reports shall be based on the fiscal year of the facility.

2020 Accounting Principles. Beginning July 1, 1982, the allowable costs shown in all cost reports described herein shall be on the basis of generally accepted accounting principles and the accrual method of accounting except that, for governmental institutions operated on a cash method of accounting, data based on such a method of accounting will be accepted. Any other providers who maintain their records on a cash basis should record such accruals as adjustments.

2021 Generally accepted accounting principles means accounting principles approved by the American Institute of Certified Public Accountants.

2022 Accrual method of accounting means that revenue is reported in the period when it is earned, regardless of when it is collected, and expenses are reported in the period in which they are incurred, regardless of when they are paid.

- 2022.1 All year end accruals must be paid by the facility within six(6) months after the end of the fiscal year in which the amounts are accrued. If the accruals are not paid within such time, these amounts will be deducted from allowable costs incurred in the subsequent fiscal year.
- 2023 Cash method of accounting means that revenues are recognized only when cash is received and expenditures for expense and asset items are not recorded until cash is disbursed for them.
- 2030 Cost Finding. The unit of output for cost finding shall be the costs of routine services for each level of care per patient day. The same cost finding method shall be used for all levels of care in all long-term care facilities. Generally, total allowable costs shall be divided by the actual days of care to determine the cost per bed day. When long-term care facilities provide more than one level of care total allowable costs shall be allocated to each level based on the occupancy data reported for each level and the following statistical bases:
- 2031 Direct Care Staff Salaries. Services provided and hours of nursing care by licensed personnel and other qualified direct care staff.
- 2032 Other Nursing Staff. Nursing salaries cost allocations.
- 2033 Capital Costs. Square feet serviced.
- 2034 Plant operation and maintenance. Square feet, serviced.
- 2035 Housekeeping. Square feet serviced.
- 2036 Laundry. Patient days.
- 2037 Dietary. Number of meals served.
- 2038 General and Administrative and Financial and Other Expenses Total accumulated costs not including General and Administrative and Financial Expense.
- 2040 Cost Reports
- 2041 Forms. Attached hereto is a copy of the uniform cost report which shall be used for all long-term care facilities in the State of Maine.
- 2042 When to File. The cost report and financial statements for each facility shall be filed not later than three months after the fiscal year end of the provider. When a provider fails to file an acceptable cost report by the due date, the department will send the provider a notice by certified mail, return receipt requested, advising the provider that all payments are suspended on receipt of the notice until an acceptable cost report is filed. Reimbursement will then be reinstated at the full rate from that time forward but, reimbursement for the suspension period shall be made at the deficiency rate of 90%. An extension of time, waiving the deficiency rate, may be approved by the Department for good cause.
- 2043 Rounding. Cents are omitted in the preparation of all schedules except when inclusion is required to properly reflect per diem costs or rates.
- 2044 Certification by operator. The cost report is to be certified by the owner and/or administrator of the facility. If the return is prepared by someone other than the owner, administrator or employee of the facility, the preparer should also sign the report.